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Buying a company car - is it worth it?

Should you buy your own car and charge it to the company, or purchase it as a company car through the company? This article explains the issue.

Company car taxation

Tax rates on company owned vehicles have increased as successive governments have sought to discourage the practice of company car ownership.

The present tax charges are based on CO_2 emission, generating taxable benefits in kind of up to 35% of the car's original list price!

If the company pays for your petrol, you will have to pay the relevant percentage (of up to 35%) on a car fuel benefit figure of £14,400 for 2004/05.

Also your company will have to pay Class 1A National Insurance Contributions on the total car and fuel benefit in kind figures at the rate of 12.8%.

Should contractors purchase company cars?

If you are operating a "one man" service company, then the answer in most cases will be that you would be better off owning the car privately. You would then charge your company tax free mileage of 40p per mile for the first 10,000 business miles and 25p per business mile thereafter.

> **"the answer in most cases will be that you would be better off owning the car privately"**
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As director and 100% shareholder of your own company, you are effectively financing the car yourself, so if your own company takes ownership of the car, you are not only spending your own money on the vehicle (unlike an employee of a large organisation) but you are also suffering not only the employee benefit in kind charges but also the employer Class 1A National Insurance charges.

When are company cars advantageous?

There are a few exceptions to the general rule above:

- If the car is a highly depreciating vehicle, it may pay to own it for a period of six months, following which the director can purchase the car for it's much reduced market value. In these circumstances, the company would bear the substantial loss arising in the short period of ownership, which may well be greater than the tax and Class 1A charges arising.
- If the car costs more than average to maintain and service, the running costs may be greater than the tax and national insurance charges.
- If the car is a "classic car" as defined by HMRC, then special rules apply which may make company car ownership attractive, particularly if the maintenance costs are high.

Expert Contributor

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